REPORT OF THE AUDIT OF THE FULTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

www.auditor.ky.gov

105 SEA HERO ROAD, SUITE 2 FRANKFORT, KY 40601-5404 TELEPHONE (502) 573-0050 FACSIMILE (502) 573-0067

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FULTON COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Fulton County Fiscal Court for fiscal year ended June 30, 2005. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$25,694,815 as of June 30, 2005. The fiscal court had unrestricted net assets of \$1,771,748 in its governmental activities as of June 30, 2005, with total net assets of \$25,680,051. In its business-type activities, total cash, and cash equivalents were \$3,784 with total net assets of \$14,764. The fiscal court had total debt principal as of June 30, 2005 of \$2,432,537 with \$190,569 due within the next year.

Report Comments:

- County Vehicles Should Be Properly Licensed And Titled
- The Fiscal Court Is Required To Pay For Purchases Within Thirty Days
- Jail Fund Expenditures Should Be Made In Accordance With County Procurement Policy
- The Jail Fund Should Reimburse The Jail Canteen Fund \$2,814
- Internal Controls Should Be Strengthened Over Jail Canteen Assets
- All Expenditures Should Be Supported By Proper Documentation

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

CONTENTS	PAGE
CONTENTS	PAGE

INDEPENDENT AUDITOR'S REPORT	1
FULTON COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS	39
NOTES TO FINANCIAL STATEMENTS	41
BUDGETARY COMPARISON SCHEDULES	57
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	60
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	63
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	67
COMMENTS AND RECOMMENDATIONS	71
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	77
APPENDIX A:	

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Harold M. Garrison, Former Fulton County Judge/Executive
Honorable David Gallagher, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fulton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Fulton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Harold M. Garrison, Former Fulton County Judge/Executive
Honorable David Gallagher, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fulton County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated December 8, 2006 on our consideration of Fulton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- County Vehicles Should Be Properly Licensed And Titled
- The Fiscal Court Is Required To Pay For Purchases Within Thirty Days
- Jail Fund Expenditures Should Be Made In Accordance With County Procurement Policy
- The Jail Fund Should Reimburse The Jail Canteen Fund \$2.814
- Internal Controls Should Be Strengthened Over Jail Canteen Assets
- All Expenditures Should Be Supported By Proper Documentation

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

December 8, 2006

FULTON COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Harold M. Garrison County Judge/Executive

Billy Nelms, Jr. Magistrate
Louis Roscoe Hutchins Magistrate
James D. Black Magistrate
Dennis Hulin Magistrate

Other Elected Officials:

Richard L. Major, Jr. County Attorney

Ricky Parnell Jailer

Betty Abernathy County Clerk

Sarah Johnson Circuit Court Clerk

Robert Hopper Sheriff

Debbie Ward Property Valuation Administrator

Henry Callison Coroner

Appointed Personnel:

Karen Argo County Treasurer
Fonda Swain Finance Officer
Dennis Warner Road Supervisor
Tommy Hodges 911 Administrator

Chris Buckingham Jail Administrative Assistant



FULTON COUNTY STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

FULTON COUNTY STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

	Primary Government						
	Gov	vernmental	Business-Type				
		Activities	Ac	tivities		Totals	
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$	2,044,220	\$	3,784	\$	2,048,004	
Accounts Receivable				61		61	
Total Current Assets		2,044,220		3,845		2,048,065	
Noncurrent Assets:							
Capital Assets - Net of Accumulated							
Depreciation							
Land and Land Improvements		62,980				62,980	
Buildings		5,754,554				5,754,554	
Vehicles and Equipment		902,829		10,919		913,748	
Infrastructure Assets - Net							
of Depreciation		19,348,005				19,348,005	
Total Noncurrent Assets		26,068,368		10,919		26,079,287	
Total Assets		28,112,588		14,764		28,127,352	
LIABILITIES							
Current Liabilities:							
Bonds Payable		125,000				125,000	
Financing Obligations Payable		65,569				65,569	
Total Current Liabilities		190,569				190,569	
Noncurrent Liabilities:							
Bonds Payable		1,280,000				1,280,000	
Financing Obligations Payable		961,968				961,968	
Total Noncurrent Liabilities		2,241,968				2,241,968	
Total Liabilities		2,432,537				2,432,537	
NET ASSETS							
Invested in Capital Assets,							
Net of Related Debt		23,635,831		10,919		23,646,750	
Restricted For:							
Debt Service		272,472				272,472	
Unrestricted	_	1,771,748		3,845		1,775,593	
Total Net Assets	\$	25,680,051	\$	14,764	\$	25,694,815	



FULTON COUNTY STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

FULTON COUNTY STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

			Program Revenues Received					
Functions/Programs		Expenses		harges for Services	Operating Grants and Contributions		Capital Grants and Contributions	
Primary Government:								
Governmental Activities:	_				_		_	
General Government	\$	1,246,403	\$	507	\$	298,726	\$	
Protection to Persons and Property		1,785,679		2,156,317		228,094		58,654
General Health and Sanitation		599						
Social Services		2,900						
Recreation and Culture		11,400						
Transportation Facilities and Services		3,313						
Roads		985,264				249,301		402,548
Other Transportation Facilities and Serv		2,000						
Debt Service		119,762						
Total Governmental Activities		4,157,320		2,156,824		776,121		461,202
Business-type Activities:								
Jail Canteen		57,555						
Total Business-type Activities		57,555						
Total Primary Government	\$	4,214,875	\$	2,156,824	\$	776,121	\$	461,202

General Revenues:

Taxes:

Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
In Lieu of Tax Payments
Excess Fees
Legal Process
Miscellaneous Revenues
Accrued Interest Received
Economic Gain on Debt Refinancing

Total General Revenues Change in Net Assets Net Assets - Beginning (Restated)

Net Assets - Ending

FULTON COUNTY STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS For The Year Ended June 30, 2005 (Continued)

Net (Expenses) Revenues and Changes in Net Assets

and Changes in Net Assets Primary Government						
vernmental Activities	Business-Type Activities		Totals			
\$ (947,170) 657,386 (599)	\$	\$	(947,170) 657,386 (599)			
(2,900) (11,400) (3,313)			(2,900) (11,400) (3,313)			
 (333,415) (2,000) (119,762)		_	(333,415) (2,000) (119,762)			
(763,173)	(57,555) (57,555)		(763,173) (57,555) (57,555)			
(763,173)	(57,555)		(820,728)			
229,240 42,474 288,510 34,302 1,695 65			229,240 42,474 288,510 34,302 1,695 65			
80,470 40,379 21,004	56,204		136,674 40,379 21,004			
 738,139 (25,034) 25,705,085	56,204 (1,351) 16,115		794,343 (26,385) 25,721,200			
\$ 25,680,051	\$ 14,764	\$	25,694,815			



FULTON COUNTY BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

FULTON COUNTY BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

								Capital Projects
	(General	Road		Jail		Corporation	
		Fund		Fund		Fund	Fund	
ASSETS								
Cash and Cash Equivalents	\$	501,707	\$	867,262	\$	393,072	\$	272,472
Total Assets	\$	501,707	\$	867,262	\$	393,072	\$	272,472
FUND BALANCES								
Reserved for:								
Encumbrances	\$	3,676	\$	4,854	\$	200,376	\$	
Unreserved:								
General Fund		498,031						
Special Revenue Funds				862,408		192,696		
Debt Service Fund								272,472
Total Fund Balances	\$	501,707	\$	867,262	\$	393,072	\$	272,472

FULTON COUNTY BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS June 30, 2005 (Continued)

Major Funds Government Funds \$ 9,707 \$ 2,044,22	tal
\$ 9,707 \$ 2,044,22	
\$ 9,707 \$ 2,044,22	
	20
\$ 9,707 \$ 2,044,22	20
-	
\$ 208,90	06
498,03	31
9,707 1,064,83	11
272,4	72
\$ 9,707 \$ 2,044,22	20

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$	2,044,220
Amounts Reported For Governmental Activities In The Statement		
Of Net Assets Are Different Because:		
Capital Assets Used in Governmental Activities Are Not Financial Resources		
And Therefore Are Not Reported in the Funds.		33,889,832
Accumulated Depreciation		(7,821,464)
Long-Term Debt Is Not Due and Payable in the Current Period and, Therefore,	Is N	ot
Reported in the Funds.		
Financing Obligations		(1,027,537)
Bonds		(1,405,000)
Net Assets Of Governmental Activities	\$	25,680,051



FULTON COUNTY STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

FULTON COUNTY STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

	General Fund		Road Fund		 Jail Fund
REVENUES					
Taxes	\$	560,223	\$		\$
In Lieu Tax Payments		34,302			
Excess Fees		1,695			
Licenses and Permits		495			
Intergovernmental		179,857		651,849	2,341,869
Charges for Services					24,917
Miscellaneous		11,328		8,058	76,353
Interest		9,453		21,176	622
Total Revenues		797,353		681,083	2,443,761
EXPENDITURES					
General Government		548,945			
Protection to Persons and Property		65,411			1,733,380
General Health and Sanitation		599			
Social Services		2,900			
Recreation and Culture		4,200			
Transportation Facilities and Services				3,313	
Roads				482,259	
Other Transportation Facilities and Services	3			49,085	
Debt Service					105,906
Administration		245,284		95,006	306,008
Total Expenditures		867,339		629,663	2,145,294
Excess (Deficiency) of Revenues Over					
Expenditures Before Other					
Financing Sources (Uses)		(69,986)		51,420	 298,467
Other Financing Sources (Uses)					
Transfers From Other Funds		108,377			
Transfers To Other Funds		(10,342)		(108,377)	
Total Other Financing Sources (Uses)		98,035		(108,377)	
Net Change in Fund Balances		28,049		(56,957)	298,467
Fund Balances - Beginning		473,658		924,219	94,605
Fund Balances - Ending	\$	501,707	\$	867,262	\$ 393,072

FULTON COUNTY STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS For The Year Ended June 30, 2005 (Continued)

Capital Projects Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 560,223
		34,302
		1,695
		495
177,600	17,626	3,368,801
		24,917
		95,739
9,129		40,380
186,729	17,626	4,126,552
	14,046	548,945 1,812,837
	14,040	1,812,837 599
		2,900
		4,200
		3,313
	145	482,404
	113	49,085
197,675		303,581
606		646,904
198,281	14,191	3,854,768
(11,552)	3,435	271,784
(11,552)		2/1,/04
10,342		118,719
•		(118,719)
10,342		
· · · · · · · · · · · · · · · · · · ·		
(1,210)	3,435	271,784
273,682	6,272	1,772,436
\$ 272,472	\$ 9,707	\$ 2,044,220



FULTON COUNTY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

FULTON COUNTY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

Net Change in Fund Balances - Total Governmental Funds	5	271,784
Amounts Reported for Governmental Activities in the Statement of		
Activities Are Different Because:		
Governmental Funds Report Capital Outlays as Expenditures. However,		
in the Statement of Activities the Cost of those Assets is Allocated over		
Their Estimated Useful Lives and Reported as Depreciation Expense.		
Book Value of Disposed Assets		(37,421)
Capital Outlay		405,058
Depreciation Expense		(869,278)
The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides		
Current Financial Resources to Governmental Funds, While Repayment of Princip	al	
on Long-term Debt Consumes the Current Financial Resources of Governmental		
Funds. These Transactions, However, Have No Effect on Net Assets.		
Financing Obligations Principal Payments and Reduction of Debt		84,823
Bond Principal Payments		120,000
Change in Net Assets of Governmental Activities	\$	(25,034)



FULTON COUNTY STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

FULTON COUNTY STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

	Business-Type Activity Enterprise Fund Jail Canteen Fund	
Assets		
Current Assets:		
Cash and Cash Equivalents	\$	3,784
Accounts Receivable		61
Total Current Assets		3,845
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment		13,499
Less Accumulated Depreciation		(2,580)
Total Noncurrent Assets		10,919
Total Assets		14,764
Net Assets		
Invested in Capital Assets,		
Net of Related Debt		10,919
Unrestricted		3,845
Total Net Assets	\$	14,764



FULTON COUNTY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND - MODIFIED CASH BASIS

FULTON COUNTY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activity		
	-	terprise	
		Fund	
		Jail	
	C	anteen	
	_	Fund	
Operating Revenues			
Canteen Receipts	\$	55,804	
Total Operating Revenues		55,804	
Operating Expenses			
Cost of Sales		13,611	
Educational and Recreational		33,554	
Computer Software and Maintenance	;	6,104	
Personnel Costs		1,950	
Depreciation		1,545	
Miscellaneous		791	
Total Operating Expenses		57,555	
Operating Income (Loss)		(1,751)	
Nonoperating Revenues (Expenses)			
Donations		400	
Total Nonoperating Revenues			
(Expenses)		400	
Change In Net Assets		(1,351)	
Total Net Assets - Beginning		16,115	
Total Net Assets - Ending	\$	14,764	



FULTON COUNTY STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

${\bf FULTON\ COUNTY}$ ${\bf STATEMENT\ OF\ CASH\ FLOWS\ -\ PROPRIETARY\ FUND\ -\ MODIFIED\ CASH\ BASIS}$

For The Year Ended June 30, 2005

		ness-Type Activity
	Ent	terprise
		<u>Fund</u> Jail
	C	anteen
	_	Fund
Cash Flows From Operating Activities		<u> </u>
Canteen Commissions	\$	55,804
Cost of Sales	•	(13,611)
Educational and Recreational		(33,554)
Computer Software and Maintenance		(6,104)
Personnel Costs		(1,950)
Miscellaneous		(791)
Net Cash Used By		(,,,,)
Operating Activities		(206)
Cash Flows From Noncapital		
Financing Activities		
Donations		400
Net Cash Provided By Noncapital		
Financing Activities		400
Cash Flows From Capital and		
Related Financing Activities		
Canteen Software		(4,498)
Net Cash Used By		
Capital and Related Financing		
Activities		(4,498)
Net Decrease in Cash and Cash		
Equivalents		(4,304)
Cash and Cash Equivalents - July 1, 2004		8,088
Cash and Cash Equivalents - June 30, 2005	\$	3,784
Reconciliation of Operating Income to Net Cash Used by Operating		
Activities	_	
Operating Loss	\$	(1,751)
Adjustments to Reconcile Operating	Ψ	(1,701)
Income To Net Cash Used		
By Operating Activities		
Depreciation Expense		1,545
Depreciation Expense		
Net Cash Used By Operating	ф.	(20.0)
Activities	\$	(206)

The accompanying notes are an integral part of the financial statements.



FULTON COUNTY STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

FULTON COUNTY STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Agency Funds			
	Jail Inmate Fund		Jail Escrow Fund	
Assets				
Current Assets:				
Cash and Cash Equivalents	\$	18,334	\$	4,248
Total Assets		18,334		4,248
Liabilities				
Amounts Held In Custody For Others		18,334		4,248
Total Liabilities		18,334		4,248
Net Assets				
Total Net Assets	\$	0	\$	0

INDEX FOR NOTES TO THE FINANCIAL STATEMENTS

Note 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	41
Note 2.	DEPOSITS	47
Nоте 3.	CAPITAL ASSETS	47
Nоте 4.	Long-term Debt	49
Note 5.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	52
Nоте 6.	RELATED PARTY TRANSACTIONS	52
Nоте 7.	EMPLOYEE RETIREMENT SYSTEM	53
Nоте 8.	Insurance	53
Nоте 9.	BEGINNING NET ASSETS RESTATED	53
Nоте 10.	ESTIMATED INFRASTRUCTURE HISTORICAL COST	53

FULTON COUNTY NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Fulton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Fulton County Capital Projects Corporation

The Fulton County Fiscal Court appoints the Capital Project Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Capital Projects Corporation. Financial information for the Capital Projects Corporation is blended within Fulton County's financial statements. All activities of the Capital Projects Corporation are accounted for within a governmental fund.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Kentucky law provides for election of the officials below from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Fulton County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government—wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories:

1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: I) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and payments from other counties for housing prisoners. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Capital Projects Corporation Fund - This fund accounts for the debt service requirements of refunding revenue bonds of the County as a Debt Service Fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for Local Development does not require the County to report or budget these funds. However, the county has decided to include the Capital Projects Corporation as part of the primary government as a blended component unit of the County.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Disaster and Emergency Services Fund, which are presented as Special Revenue Funds.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, and Disaster and Emergency Services Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The Capital Projects Corporation Fund is presented as a debt service fund. The debt service fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Fund

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenue of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the Jail Inmate Account and the Jail Escrow Account for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Account - This accounts for funds received from inmates and held until inmates use these funds or are released from custody.

Jail Escrow Account - This fund accounts for funds of former inmates that the jailer is unable to locate.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capi	italization	Useful Life	
	Th	reshold	(Years)	
		_		
Land Improvements	\$	2,500	15-30	
Buildings and Building Improvements	\$	2,500	10-60	
Machinery and Equipment	\$	2,500	3-25	
Vehicles	\$	2,500	3-15	
Infrastructure	\$	2,500	10-50	

F. Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund or the Capital Projects Corporation Fund to be budgeted.

I. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organization of Fulton County: Fulton County Economic Development Partnership; Senior Citizens, Incorporated; Hickman-Fulton County Riverport Authority; Ken-Tenn Airport; and Purchase Area Regional Industrial Authority, Incorporated.

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning			Ending
Primary Government:	Balance	Increases	Decreases	Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 62,980	\$	\$	\$ 62,980
Total Capital Assets Not Being				
Depreciated	62,980			62,980
Capital Assets, Being Depreciated:				
Buildings	7,793,948	7,000		7,800,948
Vehicles and Equipment	1,276,932	212,473	(90,488)	1,398,917
Infrastructure (Restated)	24,441,402	185,585		24,626,987
Total Capital Assets Being				
Depreciated	33,512,282	405,058	(90,488)	33,826,852
Less Accumulated Depreciation For:				
Buildings	(1,923,074)	(123,320)		(2,046,394)
Vehicles and Equipment	(475,811)	(73,344)	53,067	(496,088)
Infrastructure	(4,606,368)	(672,614)		(5,278,982)
Total Accumulated Depreciation	(7,005,253)	(869,278)	53,067	(7,821,464)
Total Capital Assets, Being	26 707 020	(161.330)	(27.424)	24.007.200
Depreciated, Net	26,507,029	(464,220)	(37,421)	26,005,388
Governmental Activities Capital	4.26.77 0.000	h (161 350)	ф <i>(</i> 2 1 1 2 1)	A 24 040 240
Assets, Net	\$ 26,570,009	\$ (464,220)	\$ (37,421)	\$ 26,068,368

Note 3. Capital Assets (Continued)

	Beginning Balance Increases		creases	Decreases		Ending Balance		
Business-Type Activities:								
Capital Assets, Being Depreciated: Vehicles and Equipment	\$	9,001	\$	4,498	\$		\$	13,499
Total Capital Assets Being Depreciated		9,001		4,498				13,499
Less Accumulated Depreciation For: Vehicles and Equipment		(1,035)		(1,545)				(2,580)
Total Accumulated Depreciation Total Capital Assets, Being		(1,035)		(1,545)				(2,580)
Depreciated, Net		7,966		2,953				10,919
Business-Type Activities Capital Assets, Net	\$	7,966	\$	2,953	\$ 0) — —	\$	10,919

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:	
General Government	\$ 46,254
Protection to Persons and Property	90,394
Recreation and Culture	7,200
Roads, Including Depreciation of General Infrastructure Assets	723,430
Other Transportation Facilities and Services	 2,000
Total Depreciation Expense - Governmental Activities	\$ 869,278
Business-Type Activities Jail Canteen	\$ 1,545
Total Depreciation Expense - Business-Type Activities	\$ 1,545

Note 4. Long-term Debt

A. First Mortgage Refunding Revenue Bonds, Series 1996

The Fulton County Capital Projects Corporation (Corporation), an independent corporate agency and instrumentality of Fulton County, issued first mortgage refunding revenue bonds, series 1996, dated December 1, 1996, for the purpose of discharging the outstanding bonds of series 1990A, 1990B, and 1991 (collectively referred to herein as the "prior bonds"). As of June 30, 2004, the bonds had been called. The net proceeds thereof were used to complete, equip, and furnish the Court Facilities Project and annex which houses county government offices. The Corporation issued \$2,215,000 of refunding bonds, the proceeds of which were used to discharge all prior bonds.

The Corporation entered into the Use and Sublease Agreement with the Kentucky Administrative Office of the Courts (AOC) dated December 1, 1996, whereby the AOC makes semi-annual payments directly to the paying agent to partially fund the debt service for the bond issue. As of June 30, 2005, outstanding bond principal was \$1,405,000. The remaining bond principal and interest requirements are:

	Governmental Activities				
Fiscal Year Ended June 30		Principal		Interest	
2006 2007 2008 2009 2010 2011-2013	\$	125,000 130,000 135,000 145,000 150,000 720,000	\$	71,305 64,675 57,751 50,401 42,658 70,660	
Totals	\$	1,405,000	\$	357,450	

Note 4. Long-term Debt (Continued)

B. Kentucky Local Correctional Facilities Construction Authority

The Kentucky Local Correctional Facilities Construction Authority ("Authority"), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of the jail facilities in Fulton County. The Authority issued \$943,147 of revenue bonds at various interest rates, of which the county agreed to pay \$355,082 principal and proportional share of interest on the issue.

In October 2004, revenue refunding bonds were issued by the Authority for the purpose of achieving interest cost savings through redemption of the previous revenue bonds outstanding. The Authority issued \$488,770 of revenue refunding bonds at various interest rates (currently 2.25 to 2.5 percent), of which the county has agreed to pay \$180,601 principal and a proportional share of interest on the issue. Financing obligations outstanding as of June 30, 2005, totaled \$180,601. The remaining principal and interest requirements are:

	Governmental Activities					
Fiscal Year Ended June 30	F	Principal	Interest			
2006	\$	13,287	\$	11,580		
2007		14,170		10,667		
2008		15,113		9,694		
2009		16,118		8,655		
2010		17,190		7,547		
2011-2014		104,723		18,335		
		_				
Totals	\$	180,601	\$	66,478		

C. Fulton County Detention Facility Annex #1 and Annex #2

Fulton County entered into two financing agreements with the Kentucky Association of Counties Leasing Trust. The purpose of these two financing agreements was for the construction and use of the Fulton County Detention Facility Annex #1 and Annex #2. The Annex #1 financing agreement, entered into on July 17, 1992, was for a total principal of \$415,000 at a fixed rate of 5.25 percent. In December 2004, the lease changed to a variable rate, which was 1.9 percent through the end of the current fiscal year. The Annex #2 financing agreement, entered into on January 30, 1998, was for a total principal of \$775,000 at a variable rate, which was 2.06 percent for the current fiscal year. As of June 30, 2005, the County was in compliance with financing agreements. Total principal outstanding was \$265,000 and \$581,937, respectively.

Note 4. Long-term Debt (Continued)

C. Fulton County Detention Facility Annex #1 and Annex #2 (Continued)

The remaining principal and interest requirements are:

1) Jail Annex #1

	Governmental Activities							
Fiscal Year Ended June 30	I	Principal	Interest					
2006	\$	16,000	\$	7,642				
2007		17,000		7,153				
2008		18,000		6,645				
2009		19,000		6,097				
2010		20,000		5,523				
2011-2015		118,000		17,843				
2016-2017		57,000		1,848				
Totals	\$	265,000	\$	52,751				

2) Jail Annex #2

	Governmental Activities						
Fiscal Year Ended							
June 30	P	rincipal]	Interest			
2006	\$	36,282	\$	16,052			
2007		37,716		15,008			
2008		39,207		13,956			
2009		40,756		12,830			
2010		42,367		11,670			
2011-2015		238,314		39,276			
2016-2018		147,295		6,410			
Totals	\$	581,937	\$	115,202			

Note 4. Long-term Debt (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government: Governmental Activities:					
Revenue Bonds Financing Obligations **	\$ 1,525,000 1,112,360	\$	\$ 120,000 84,823	\$ 1,405,000 1,027,537	\$ 125,000 65,569
Governmental Activities Long-term Liabilities	\$ 2,637,360	\$	\$ 204,823	\$ 2,432,537	\$ 190,569

^{**} Reductions in financing obligations are the result of the issuance of refunding bonds by the Kentucky Local Correctional Authority (Authority) in October 2004. Under the new agreement with the Authority, the county is responsible for paying \$180,601 of principal and a proportional share of interest on the issue. The net effect is a reduction in debt of \$21,004.

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$42,087 in interest on financing obligations and \$77,675 in interest on bonds.

Note 6. Related Party Transactions

A. Fields Petroleum

During the fiscal year ended June 30, 2005, the magistrate from District #4 was employed as a salesperson by Fields Petroleum, Incorporated. Even though the magistrate from District #4 abstained from voting on the oil and gas bids, Fulton County awarded this bid to Fields Petroleum. During the fiscal year ended June 30, 2005, Fulton County purchased \$42,307 from Fields Petroleum, Incorporated. The Fulton County's Ethics Code allows this transaction since the magistrate from District #4 did not participate in the bid process.

B. Bradley & Roberts

During the fiscal court ended June 30, 2005, the Fulton County Detention Center contracted with Lana Adams, d.b.a. Bradley & Roberts, for the collection of booking and boarding fees. Bradley & Roberts received one-third of the collections as commissions. Lana Adams is the sister of the Jailer's administrative assistant.

C. CDSS, LLC

During the fiscal year ended June 30, 2005, the Fulton County Detention Center conducted business with CDSS, LLC. Throughout the fiscal year, the detention center expended funds totaling \$3,639 from and Jail Fund and \$3,675 from the Jail Canteen Fund for computer repairs. CDSS, LLC, is owned by Marty Higgs who was a full-time employee of the Detention Center during the fiscal year.

Note 7. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Fulton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Beginning Net Assets Restated

Net assets as previously reported have been restated by \$15,082,047 because infrastructure of the governmental activities was overstated in the prior year due to a mathematical error. Restated net assets were \$25,705,085.

Note 10. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2003. All infrastructure assets placed in service during the fiscal year ended June 30, 2004 and thereafter are recorded at actual historical cost.



FULTON COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

FULTON COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

Original

REVENUES

Excess Fees

Miscellaneous

Total Revenues

Interest

In Lieu Tax Payments

Licenses and Permits

Intergovernmental Revenue

Excess (Deficiency) of Revenues Over

Transfers To Other Funds

Taxes

Budgeted Amounts Driginal Final		A (B	Actual mounts, udgetary Basis)	Fin F	ance with al Budget	
лідшаі		FIIIai		Dasis)	(1)	legative)
457,900	\$	457,900	\$	560,223	\$	102,323
33,000		33,000		34,302		1,302
9,795		9,795		1,695		(8,100)
400		400		495		95
139,199		139,199		179,857		40,658
4,500		4,500		11,328		6,828
1,500		1,500		9,453		7,953
646,294		646,294		797,353	-	151,059

(10,342)

(10,342)

GENERAL FUND

EXPENDITURES				
General Government	640,590	661,266	548,945	112,321
Protection to Persons and Property	91,750	89,350	65,411	23,939
General Health and Sanitation	6,300	6,300	599	5,701
Social Services	4,800	4,800	2,900	1,900
Recreation and Culture	16,000	16,000	4,200	11,800
Debt Service	15,000	15,000		15,000
Capital Projects	54,000	54,000		54,000
Administration	401,231	382,955	245,284	137,671
Total Expenditures	1,229,671	1,229,671	867,339	362,332

Expenditures Before Other Financing Sources (Uses)	(583,377)	(583,377)	(69,986)	513,391
OTHER FINANCING SOURCES (USES) Transfers From Other Funds	108.377	108.377	108.377	

Total Other Financing Sources (Uses)	108,377	 108,377	 98,035	 (10,342)
Net Changes in Fund Balance Fund Balance - Beginning	 (475,000) 475,000	 (475,000) 475,000	 28,049 473,658	 503,049 (1,342)
Fund Balance - Ending	\$ 0	\$ 0	\$ 501,707	\$ 501,707

FULTON COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis For The Year Ended June 30, 2005 (Continued)

	ROAD FUND							
		Budgeted Original	Amo	ounts Final	A (B	Actual mounts, udgetary Basis)	Fin	iance with al Budget Positive Jegative)
REVENUES								
Intergovernmental Revenue	\$	665,570	\$	665,570	\$	651,849	\$	(13,721)
Miscellaneous		1,000		1,000		8,058		7,058
Interest		3,000		3,000		21,176		18,176
Total Revenues		669,570		669,570		681,083		11,513
EXPENDITURES								
Transportation Facilities and Services		10,000		10,000		3,313		6,687
Roads		751,548		758,348		482,259		276,089
Other Transportation Facilities and Services		27,024		57,024		49,085		7,939
Administration		622,621		585,821		95,006		490,815
Total Expenditures		1,411,193		1,411,193		629,663		781,530
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(741,623)		(741,623)		51,420		793,043
						<u> </u>		<u> </u>
OTHER FINANCING SOURCES (USES)								
Transfers To Other Funds		(108,377)		(108,377)		(108,377)		
Total Other Financing Sources (Uses)		(108,377)		(108,377)		(108,377)		
Net Changes in Fund Balance		(850,000)		(850,000)		(56,957)		793,043
Fund Balance - Beginning		850,000		850,000		924,219		74,219
Fund Balance - Ending	\$	0	\$	0	\$	867,262	\$	867,262

FULTON COUNTY BUDGETARY COMPARISON SCHEDULES Required Supplementary Information - Modified Cash Basis For The Year Ended June 30, 2005 (Continued)

	JAIL FUND							
		Budgeted Original	Am	ounts Final		Actual Amounts, Budgetary Basis)	Fi	riance with nal Budget Positive Negative)
REVENUES								
Intergovernmental Revenue	\$	1,295,249	\$	1,715,249	\$	2,341,869	\$	626,620
Charges for Services		32,300		32,300		24,917		(7,383)
Miscellaneous		142,043		142,043		76,353		(65,690)
Interest						622		622
Total Revenues		1,469,592		1,889,592		2,443,761		554,169
Protection to Persons and Property Debt Service Administration Total Expenditures Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		1,306,855 124,500 318,237 1,749,592 (280,000)		1,739,475 123,285 306,832 2,169,592 (280,000)		1,733,380 105,906 306,008 2,145,294		6,095 17,379 824 24,298
OTHER FINANCING SOURCES (USES) Total Other Financing Sources (Uses)	_							
Net Changes in Fund Balance		(280,000)		(280,000)		298,467		578,467
Fund Balance - Beginning		280,000		280,000		94,605		(185,395)
Fund Balance - Ending	\$	0	\$	0	\$	393,072	\$	393,072

FULTON COUNTY NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

FULTON COUNTY COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

June 30, 2005

FULTON COUNTY COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

June 30, 2005

	Disaster And Emergency Services Fund		Noi Gove	Fotal 1-Major rnmental Tunds
ASSETS				
Cash and Cash Equivalents	\$	9,707	\$	9,707
Total Assets	\$	9,707	\$	9,707
FUND BALANCES Unreserved:				
Special Revenue Funds	\$	9,707	\$	9,707
Total Fund Balances	\$	9,707	\$	9,707



FULTON COUNTY COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

For The Year Ended June 30, 2005

FULTON COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government Economic Assistance Fund	Disaster And Emergency Services Fund		Total Non-Major Governmental Funds	
REVENUES					
Intergovernmental	\$	\$	17,626	\$	17,626
Total Revenues			17,626		17,626
EXPENDITURES					
Protection to Persons and Property			14,046		14,046
Roads	145				145
Total Expenditures	145		14,046		14,191
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing					
Sources (Uses)	(145)		3,580		3,435
Net Change in Fund Balances	(145)		3,580		3,435
Fund Balances - Beginning	145		6,127		6,272
Fund Balances - Ending	\$ 0	\$	9,707	\$	9,707

THIS PAGE LEFT BLANK INTENTIONALLY

-

FULTON COUNTY COMMENTS AND RECOMMENDATIONS

For The Year Ended June 30, 2005

FULTON COUNTY COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2005

STATE LAWS AND REGULATIONS

County Vehicles Should Be Properly Licensed And Titled

A 2005 Ford Expedition was purchased through the Jail Fund that was not properly registered or titled in the County's name. KRS 186A.065 states, "Except as otherwise provided, before the owner of a motor vehicle or trailer may operate it or permit its operation upon the highways of this state, he shall obtain motor vehicle insurance as required by KRS 304.39-080, a certificate of registration, and a license plate and apply for a certificate of title in his name." Furthermore, KRS 186.990(6), the "penalty" section to KRS Chapter 186A states: "Any person who violates any provisions of this chapter, or regulations prescribed by statute, shall be guilty of a Class A misdemeanor." We recommend the County obtain proper title and registration on the Ford Expedition and all other vehicles owned and operated by the County as required by KRS 186A.065.

Former County Judge/Executive Harold Garrison's Response: Proper registration and title has been obtained.

County Jailer Ricky Parnell's Response: We sent all proper documentation to the Fiscal Court, what happened from that point, I don't know. We have steps in place to remedy this situation.

The Fiscal Court Is Required To Pay For Purchases Within Thirty Days

Invoices were being held in excess of thirty days as a result of a lack of available budget appropriations. Finance charges and interest were also incurred on credit accounts due to invoices being paid late or not being paid in full. KRS 65.140 states, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." We recommend the fiscal court comply with KRS 65.140 by paying all invoices for goods or services in full within thirty (30) working days of receipt of a vendor's invoice. We also recommend that the Jailer submit invoices to the Finance Officer on a timely basis.

Former County Judge/Executive Harold Garrison's Response: No response.

County Jailer Ricky Parnell's Response: The Fiscal Court meets on the second Tuesday of the month. The bills have to be turned in the Friday before the meeting. If we receive a bill after that Friday, it cannot be paid until the next month's meeting. We recommend the Fiscal Court push the meeting back to allow time for all bills, statements to come in and be processed.

FULTON COUNTY COMMENTS AND RECOMMENDATIONS Fiscal Year Ended June 30, 2005 (Continued)

STATE LAWS AND REGULATIONS (Continued)

Jail Fund Expenditures Should Be Made In Accordance With County Procurement Procedures

The Jailer's purchase of a 2005 Crown Victoria totaling \$21,544 was not made in accordance with the County's procurement procedures. However, the dealership explained that they matched the "State Price Contract" as set by the awarded dealer for a vehicle with the same exact features and charged extra for any options the vehicle has above the standard equipment of the bid vehicle. KRS 441.225(1) states, "...the jailer shall have the authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county." According to the county procurement code, any purchase exceeding \$20,000 requires the official to submit to the county judge/executive a written request containing the specifications, quantities, and delivery desired. The county procurement code, as amended June 14, 2005, reduces this amount from \$20,000 to \$5,000. We recommend the Jailer comply with KRS 441.225(1) by following the guidelines set forth by the County's procurement procedures. We also recommend the fiscal court closely review these expenditures before payment is approved.

Former County Judge/Executive Harold Garrison's Response: No Response.

County Jailer Ricky Parnell's Response: Before I make any purchase over \$5,000 I contact all magistrates and have verbal approval to purchase the items. No, I have not requested it in writing and never have for the 17 years I have been jailer and nothing was ever said. I will be happy to request it in writing with no questions at all.

The Jail Fund Should Reimburse The Jail Canteen Fund \$2,814

Expenditures of \$2,814 were expended from the jail canteen fund for an inmate tracking system that was not for the benefit or recreation of the prisoners. KRS 441.135 (2) states, "All profits from the canteen shall be used for the benefit or recreation or the prisoners." We recommend the Jail Fund reimburse the Jail Canteen Fund \$2,814 for these expenditures

Former County Judge/Executive Harold Garrison's Response: No Response.

County Jailer Ricky Parnell's Response: A claim has been submitted to Fiscal Court for the December 2006 meeting to reimburse the Commissary Account. The scanners were bought for the commissary program, but we will reimburse this account this month.

FULTON COUNTY COMMENTS AND RECOMMENDATIONS Fiscal Year Ended June 30, 2005 (Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

Internal Controls Should Be Strengthened Over Jail Canteen Assets

The purchase of televisions, DVD players, microwaves, and other assets from canteen profits are susceptible to loss due to portability and size. The Jailer does not maintain an inventory of these assets. The county's inventory policy is to inventory all items costing more than \$250 and lasting over a year. At a minimum, the Jailer should follow the county's policy. In addition, specific items should also be inventoried such as televisions, cameras, and computer equipment. The inventory sheet should describe the property, list an inventory control number or serial number, date acquired, location, date destroyed or sold as surplus property and a brief explanation of why the asset was discarded. The inventory sheet should be updated throughout the year. An annual physical inventory of assets should be conducted each year and compared to the inventory sheet. We recommend the jailer strengthen internal controls over jail canteen assets by implementing an inventory system of these assets in order to protect them from misappropriation due to fraud.

Former County Judge/Executive Harold Garrison's Response: No Response.

County Jailer Ricky Parnell's Response: The above mentioned purchases since January 1, 1990, we have never been told by any auditor to keep inventory. We have no problem setting up a program to keep up this inventory.

All Expenditures Should Be Supported By Proper Documentation

While testing expenditures from the Jail Fund, we noted expenditures that were not supported by proper documentation, particularly items purchased via credit card. Jail Fund claims submitted to fiscal court included credit card statements; however, receipts were not always available to support the credit card statements. Credit card purchases charged to the Jail Fund were \$85,943 for fiscal year 2005. We tested credit card purchases totaling \$31,389 and receipts of \$3,400 were missing to support the credit card statements. We recommend that fiscal court require that receipts be included to support credit card statements before approval is made to pay the claim and without proper documentation, Fiscal Court should scrutinize all credit card expenses.

Former County Judge/Executive Harold Garrison's Response: No Response.

PRIOR YEAR FINDINGS

• The County Jailer Did Not Have The Authority To Enter Into A Contract For Collection Of Outstanding Inmate Boarding Fees

The above contract was approved by the Fulton County Fiscal Court on June 14, 2005.

 The County Jailer Shall Establish And Implement Internal Control Policies And Procedures For The Jail Inmate Fund

This comment has been corrected.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold M. Garrison, Former Fulton County Judge/Executive Honorable David Gallagher, Fulton County Judge/Executive Members of the Fulton County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 8, 2006. Fulton County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fulton County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of comments and recommendations.

- Internal Controls Should Be Strengthened Over Jail Canteen Assets
- All Expenditures Should Be Supported By Proper Documentation

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards (Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses.

- Internal Controls Should Be Strengthened Over Jail Canteen Assets
- All Expenditures Should Be Supported By Proper Documentation

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Fulton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of material noncompliance or other matters that are required to be reported under <u>Government Auditing Standards</u> and which are described in the accompanying comments and recommendations.

- County Vehicles Should Be Properly Licensed And Titled
- The Fiscal Court Is Required To Pay For Purchases Within Thirty Days
- Jail Fund Expenditures Should Be Made In Accordance With County Procurement Policy
- The Jail Fund Should Reimburse The Jail Canteen Fund \$2,814

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

December 8, 2006

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

FULTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

FULTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Fulton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

Harold Garrison

County Judge/Executive

Karen Argo

County Treasurer